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Globalization and interdependence: (a) Role of the United Nations in promoting development in the context of globalization and interdependence

An overview of the major international economic and policy challenges for equitable and inclusive sustained economic growth and sustainable development, and of the role of the United Nations in addressing these issues in the light of the New International Economic Order

Report of the Secretary-General

Summary

The present report is prepared pursuant to General Assembly resolution 64/209, entitled "Towards a New International Economic Order". It offers an overview of various dimensions of globalization, major international economic and policy changes and challenges for equitable and inclusive sustained economic growth and sustainable development. It then highlights the role of the United Nations, through various world conferences and summits, in addressing those issues and their relevance for the principles contained in the Declaration on the Establishment of a New International Economic Order and the Programme of Action on the Establishment of a New International Economic Order.

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I. Introduction

1. The world has witnessed unprecedented economic globalization over the past few decades in terms of movements of goods, finance and labour. With rapid globalization, the world has become much more interdependent. This has created tremendous opportunities for innovation as well as serious challenges in the uneven distribution of its benefits and costs. This has also heightened the risk of social, economic and environmental shocks spreading from one country to another with adverse effects and increased economic insecurity. The poorest and most vulnerable populations of developing countries, in particular, have borne the brunt of external shocks.

2. The food and fuel crises of 2007-2008 and the current global financial and economic crisis are recent examples of how problems originating in one part of the world have quickly engulfed the entire world economy and adversely affected developing countries. Thus, the transmission of shocks — through channels of reduced trade, remittances, investment and financial flows — has exacerbated inequities associated with globalization, jeopardizing development and human welfare. With aid flows also declining, the impacts have been even more devastating for low-income countries and the poor. While official development assistance (ODA) grew slightly in real terms from 2008 to 2009, it is still projected to fall well short of long agreed aid commitments.[1]

3. The challenge then is to realize the potential benefits of globalization while minimizing the considerable costs, risks and vulnerabilities that globalization has also created. In the current environment, beset by multiple crises (food, energy, climate change and financial), the challenge seems daunting.

4. Nevertheless, the global crises have also provided a rare opportunity for the international community to guide the world economy onto a path of more sustainable economic growth and recovery by simultaneously addressing the problems of food and energy insecurity, climate change and the developmental aspirations of developing countries. This goal can be achieved through inclusive multilateralism and the equitable participation of all countries, both developed and developing, as envisioned in the Declaration and the Programme of Action on the Establishment of a New International Economic Order, adopted by the General Assembly at its sixth special session in 1974 (resolutions 3201 (S-VI) and 3202 (S-VI)).

5. At a time when resources are scarce, innovative approaches to financing are needed to address the challenges of climate change mitigation and adaptation, poverty reduction and the achievement of the other internationally agreed development goals. These new methods need to be developed in a spirit of partnership, cooperation and solidarity, bearing in mind the common interests and national priorities of each country. As the main institution of inclusive multilateralism, the United Nations can play an important role in facilitating such efforts.

[1] Organization for Economic Cooperation and Development, "Development aid rose in 2009 and most donors will meet 2010 aid targets", 14 April 2010. Available from http://www.oecd.org/document/11/0,3343,en_21571361_44315115_44981579_1_1_1_1,00.html.

II. Dimensions of globalization and challenges for sustained, equitable and inclusive growth

6. Globalization means different things to different people. At least five aspects of economic globalization have had mixed effects in the developing world, including international trade, foreign direct investment, international finance, strengthened intellectual property rights, and the new international economic governance. The root causes of the recent food and energy crises and the Great Recession of 2008-2009 can be traced to aspects of globalization, but these and other challenges can also be addressed through greater inclusive multilateralism.

International trade

7. More than half a century ago, Hans Singer and Raul Prebisch at the United Nations showed how primary commodity prices had declined compared to those for manufactured goods during the first half of the twentieth century. Those trends continued in the second half of the twentieth century, especially during the 1980s, when commodity prices fell with economic growth after some gains in the preceding decade.

8. Two related trends continue to be relevant. First, there has been a greater decline in the terms of trade of tropical agricultural commodities compared to temperate ones. Second, generic manufactures have been experiencing worsening terms of trade as intense competition has resulted in "beggar-thy-neighbour" processes keeping down the prices of products from developing countries. They have good reason to be concerned about such observed long-run trends.

9. Claims of gains from trade liberalization often ignore or underestimate "transitional costs" (including employment and income losses owing to the elimination of existing industries, jobs, etc.), and seem oblivious that better new jobs have only exceptionally more than replaced jobs lost — as most trade impact modelling exercises make unrealistic assumptions of full employment, and so forth. The removal of all of the high-income countries' barriers to the merchandise exports of developing countries — including agriculture, textiles and other manufactured goods — would result in very little additional income for the exporting countries; e.g., the World Bank estimated that full trade liberalization by 2015 would add only 0.6 per cent to the gross domestic product of low- and middle-income countries.[2]

10. Contrary to widespread belief, developing countries will not be the main beneficiaries of agricultural trade liberalization by the developed countries. While most developing economies will gain from easier and greater access to the protected agricultural markets of the developed countries, the main beneficiaries will actually be from the developed agriculture-exporting countries. Although greater access to agricultural markets will benefit all agriculture-exporting economies, including some of the least developed countries, the principal beneficiaries will not be from the developing world.[3] Trade liberalization in recent decades has also made it increasingly difficult to use trade policies as an instrument of industrial policy and

[2] World Bank, *Global Economic Prospects 2002*, table 6.1.

[3] Kym Anderson, "Trade liberalization, agriculture and poverty in low-income countries". Paper presented at the Trade and Industrial Policy Strategies (TIPS) Annual Forum (September 2002). Available from www.tips.org.za.

other developmental strategies. However, almost all industrialized economies today have used trade policy instruments to develop new economic capacities and capabilities, including many in manufacturing.

Foreign direct investment

11. The debate on the pros and cons of foreign direct investment continues without any consensus, although there is little disagreement that gains from "green-field" foreign direct investment are more likely than from other types of capital inflows. However, in recent decades it has become more common to stress, if not exaggerate, the benefits of foreign direct investment in economic development, both historically and more recently.

12. The role of such foreign direct investment in the East Asian miracle was modest, accounting for less than 2 per cent of gross domestic capital formation during the high growth periods in Japan, the Republic of Korea and Taiwan, Province of China, compared to the developing country average of 5 to 6 per cent and higher shares in some south-east Asian newly industrializing countries relying on foreign direct investment. During the 1997-1998 South-East Asian economic crises, the region's industrial capabilities were much weaker because of greater reliance on and domination by foreign direct investment.

13. The *World Investment Report 1999* of the United Nations Conference on Trade and Development showed that more than 80 per cent of foreign direct investment in the world during the 1990s consisted of mergers and acquisitions — mostly acquisitions, rather than mergers — in most developing countries. Hence, most foreign direct investment is not "green-field" investment that actually creates new economic capacity. Mergers and acquisitions have mainly involved foreign acquisitions, particularly during periods of distress, especially after the ever more frequent currency and financial crises of recent times. Such "fire-sale foreign direct investment" reduces the likelihood of superior management emerging following mergers and acquisitions, as suggested by conventional economic theory.

Technology

14. Strengthened intellectual property rights in recent decades have raised the costs of acquiring technology, reducing technology transfers, raising their costs and otherwise strengthening transnational corporations' monopoly powers, with adverse consequences for development and industrialization. The World Trade Organization (WTO) Agreement has reinforced trade-related aspects of intellectual property rights (TRIPs) in ways not provided for by the World Intellectual Property Organization (WIPO), while bilateral, regional and other plurilateral trade and investment agreements have often imposed even more stringent TRIPs requirements. Consequently, incomes from intellectual property rights have greatly increased and now constitute major sources of foreign exchange earnings for technology-based corporations in some advanced industrialized countries. Member countries of WTO later agreed to substantially reduce pharmaceutical drug prices for designated essential medicines with mixed success, suggesting the possibility of a more comprehensive review and revision of the new intellectual property rights regime. However, recent developments do not give much cause for optimism despite the urgent need for such progress to address the climate change, food security and other challenges.

International finance

15. Financial liberalization, deregulation and globalization have been increasingly promoted all over the world with the growing influence of finance. At the national level, financial liberalization was supposed to improve the allocation of scarce resources and thus promote investment and growth. However, there is no unambiguous evidence of faster economic growth in countries that have pursued financial liberalization. Instead, financial liberalization has been associated with greater macroeconomic instability and rising inequalities.

16. With some exceptions, opening up the capital account has facilitated capital flight, rather than inflows, especially of a long-term nature, to develop new economic capacities. Developing countries continue to provide net financial resources to developed economies, peaking with an all-time high of $883 billion in 2008. The lost decade of the 1980s in Latin America, the lost two decades at the end of the twentieth century in Africa, and protracted stagnation in post-"shock" transition economies have accompanied financial liberalization.[4] And when capital has flowed to emerging markets, such episodes have often been temporary, and eventually reversed with devastating consequences, as in the 1997-1998 East Asian, 1998 Russian, 2000 Turkish and 2002 Argentine crises. Not surprisingly, recent International Monetary Fund (IMF) research acknowledges that financial liberalization has not ensured higher growth.[5]

17. Capital account liberalization has also not ensured significantly cheaper finance. Instead, the cost of finance rises sharply during economic downturns (forcing real interest rates to rise) and falls during booms (involving low real interest rates). More rents have accrued to finance in the economies of OECD countries in recent decades.[6] Meanwhile, financial liberalization has led to financial deepening, which has increased the levels of intermediation and corresponding claims to financial rents.

18. Capital account liberalization and financial deregulation were supposed to ensure a more stable financial system. Although financial deepening and some new financial derivatives have reduced some old sources of volatility (e.g., because of exchange or interest rate fluctuations), new sources of volatility have been created by these very same instruments. That has been exacerbated by greater "financialization", reflected, for example, by the growth of hedge funds. With growing concentration, enhanced by considerable leveraging, such risk is much more concentrated, leading to greater systemic risk, and a more volatile and unstable system. Currency, financial and capital account crises have become more frequent and greater in magnitude.[5] Far-reaching financial deregulation also facilitated an unfettered explosion of new financial instruments, such as top-rated securitized sub-prime mortgage lending, sold onto financial institutions worldwide.

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[4] United Nations Development Programme, *Human Development Report, 2003* (New York, Oxford University Press, 2003).

[5] Eswar Prasad, Kenneth Rogoff, Shang-jin Wei and M. Ayhan Kose, "The Effects of Financial Globalization on Developing Countries: Some Empirical Evidence", IMF Working Paper, 17 March 2003, International Monetary Fund, Washington, D.C.

[6] Gerald Epstein, Dorothy Power and Mathew Abrena, "Trends in the Rentier Income Share in OECD Countries, 1960-2000". Working Paper No. 58a, Political Economy Research Institute (Amherst, University of Massachusetts, 2003). Available from www.Umass.edu/peri/.

19. The interconnectedness of excessive risk-taking in financial markets with the global imbalances, vast dollar reserve accumulation (especially in parts of the developing world), volatile commodity prices and declining productive investments explains why the 2008-2009 crisis has been systemic and somewhat synchronized worldwide. For some years, the United Nations system, in various publications,[7] repeatedly warned that mounting household, public sector and financial sector indebtedness in the United States of America and elsewhere, reflected in wide global financial imbalances, would not be sustainable over time. But widespread economic growth during the middle of the past decade diverted attention away from the unsustainable bases of this seemingly strong, if unsustainable, growth. Although strong export growth and higher commodity prices benefited many developing countries, this growth pattern also led to mounting global financial imbalances and overleveraged financial institutions, businesses and households. Warnings about irrational exuberance and about the growing need to correct the global imbalances were largely ignored.

20. With the recent increased influence of finance, there has been greater pressure on governments to pursue much more deflationary and pro-cyclical macroeconomic policies. For example, "inflation targeting" has often become the norm for central banks since the 1990s. Inflation-targeting monetary policy has also constrained fiscal policy, as public borrowing is seen as inflationary. For example, in Europe, the Stability and Growth Pact has tied the hands of governments that might otherwise have used budgetary deficits to reflate their economies and create jobs. Such policies have been partly responsible for slower economic growth and job creation around the world since the 1980s.

21. Historically, the availability of long-term development finance has been crucial for development. Development in many countries like Japan, the Republic of Korea and Brazil (to name just a few) has been heavily dependent on such financial facilities. Financial liberalization has reduced — if not eliminated — such financial policies and institutions. Now, most regional development banks have reduced long-term industrial finance following the World Bank's reduction of industrial financing facilities in the 1980s. Thus, financial liberalization has been accompanied by the undermining of the few remaining institutions and instruments available for developing economies to try to catch up by deploying scarce financial resources to promote and induce desired investments.

International economic governance

22. The Bretton Woods institutions — the International Monetary Fund and the World Bank — were created in 1944 to create the conditions for sustaining peace by ensuring economic security. President Franklin D. Roosevelt believed that promotion of the economic security of all would provide the foundation for post-war political stability, domestically and internationally. Thus, United States policymakers sought to "internationalize" the New Deal and make development in poorer countries an international responsibility. In other words, the emphasis at the United Nations Monetary and Financial Conference at Bretton Woods was clearly on supporting growth, employment creation, post-war reconstruction and post-colonial development, not just monetary and financial stability.

[7] United Nations, *World Economic Situation and Prospects*; United Nations Conference on Trade and Development, *Trade and Development Report*.